FMDQ SPOTLIGHT

NEWSLETTER EDITION 43 – MAY 2018

FMDQ

OTC Securities Exchange

FMDQ OTC Securities Exchange

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NEW STORIES

FMDQ Commercial Paper Market Hits ₦1.00 Trillion Mark

Following an extended period marked by a dearth of activity, significantly weakened issuer interest and diminished investor confidence, the Nigerian Commercial Paper (CP) market may now have accomplished a full and clear revival as registered CP Programmes on the platform of FMDQ OTC Securities Exchange (FMDQ or the OTC Exchange) have crossed ₦1.00 trillion in value.

Stark opacity and extreme market irregularities which characterised the Nigerian CP market prior to the necessary release of the Central Bank of Nigeria (CBN) *Guidelines on the Issuance and Treatment of Bankers' Acceptances and Commercial Paper [2009]* (the Guidelines), saw the sharp decline of the then market from trillions worth to zero levels by 2013. There however, appears to be hope for businesses looking to tap the debt market for short-term capital and investors looking to diversify their portfolios, as the FMDQ-championed CP market reform since 2014, which was predicated on the back of the CBN Guidelines, has contributed, in no small measure, to the revival of the activities in the CP market; providing issuers a renewed opportunity to grow their businesses and meet short-term funding obligations as well as restoring the much-needed confidence required by investors to actively participate in the market.

Having made the decision to embark on key initiatives and strategies for the restoration of the Nigerian CP market back in 2014, FMDQ, in collaboration with the CBN and other relevant market stakeholders, relentlessly sought to realise this objective. FMDQ released the FMDQ Commercial Paper Quotation Rules & Process in 2014, following the receipt of the CBN's "No Objection" on same, and focused efforts and the requisite resources to organise and resuscitate the undeniably extremely important market. In addition to providing what issuers and market participants have described as a reliable and efficient platform for registering, quoting and trading CPs, amongst other debt securities, FMDQ has taken the most crucial steps towards promoting transparency, governance, integrity and efficiency, thereby regaining the lost interest and confidence in the Nigerian CP market, by adopting initiatives specifically targeted at achieving the objective to revive the market. Transparency, price discovery, liquidity, rollover governance (i.e. matured CPs are approved for rollover only with the consent of investors), efficient quotation processes are some of the transformation elements now evident in the Nigerian CP market today. Issuers and investors alike, are now able to effectively and sustainably contribute to the development of the nation's debt markets.

Coming at a time when the OTC Exchange has recently affirmed its commitment towards the development of the Nigerian debt capital markets (DCM) and its subsequent deepening and integration to its international counterparts, one can expect that the successes recorded by the Nigerian CP market can be cascaded into other aspects of the Nigerian financial markets within FMDQ's purview.

Indeed, FMDQ continues to validate its position as the foremost debt capital and OTC derivatives-focused exchange in the nation and the commendable strides made by the OTC Exchange in its product and market development agenda, notable of which include the launch of Short-Term Bonds process to enhance speed to market in bond issuance, the commencement of the Private Companies' Bonds Noting Service and most recently, and the embarkment on initiatives aimed at the development of the Sukuk and Green Bonds/Sustainable Finance markets to support infrastructure and economic development in Nigeria, have begun to put the Nigerian DCM on the global map.

FMDQ has ably embraced the role of a change agent in the Nigerian financial market and it is expected that the OTC Exchange will not rest on it oars but continue to deploy initiatives to improve the prosperity of all categories of capital raising, investing and trading stakeholders - governments, businesses, and individuals - through its compelling activities in promoting access to capital, democratising investment, enhancing transfer of value and championing transfer of risk in the DCM.

CPs, which are short-term debt financing instruments issued for a period not exceeding two hundred and seventy (270) days, present a cost-effective and stable means of sourcing scarce capital when compared to traditional bank loans and enable businesses diversify their funding sources. It is therefore, commendable that at such time when banks, non-bank financial institutions and small & medium-scale enterprises are striving to flourish despite the economic challenges in the country, the CP market can be looked to, to provide a viable, stable and cost-effective means for the achievement of their business objectives/goals.

In addition, by accessing the CP market, businesses can build confidence in their brand as well as raise their corporate profiles ahead of tapping the market for longer-term debt such as bonds in preparation for the impact of banks implementation of Basel 3 liquidity management principles. As an investible asset class, CPs are often sought by investors to diversify their portfolios, thus, enhancing overall portfolio return, with their short-term nature permitting high relative return on investment, and allowing these investors to remain relatively liquid. Companies that have tapped the CP market have achieved significant reduction in their borrowing costs.

The Nigerian Commercial Paper Market: *Integrity Restored!!!*

Programmes (₦'bn)		Series (₦'bn)					
Registered *(No.)*	**Total**	**Issued** *(No.)*	**Total**	Matured & Paid	Rolled-Over & Paid	Default	Live
17	1,059.00	74	504.71	316.48	5.00	Nil	183.22

Extract from FMDQ Quoted Commercial Paper Status Report (QCSR). Further details on this and more on the Listings & Quotations Compliance page on www.fmdqotc.com.

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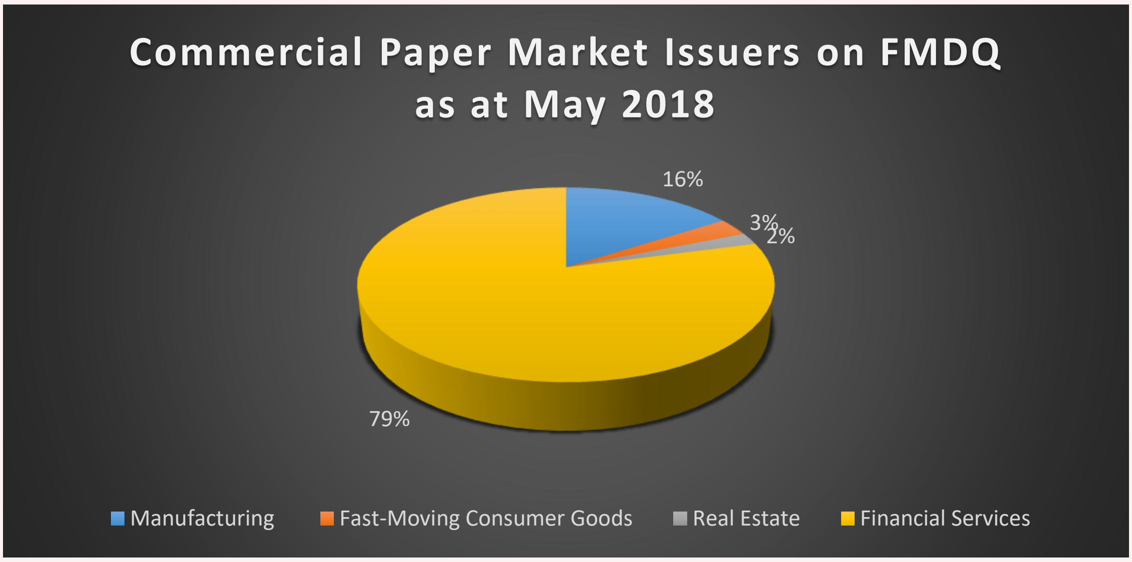

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23rd OTC FX Futures Contract Matures and Settles on FMDQ

The Naira-settled OTC FX Futures market continues to pave the way for market participants to effectively and efficiently manage their FX risk, and by extension foster stability and liquidity in the Nigerian FX market. With the consistent support provided by the Central Bank of Nigeria (CBN), another OTC FX Futures contract - NGUS MAY 30 2018 - successfully matured and settled on the OTC Exchange on Wednesday, May 30, 2018; bringing the total value of contracts so far matured and settled on FMDQ to circa $9.63 billion, and a total of circa $13.62 billion worth of OTC FX Futures contracts traded since product launch.

The NGUS MAY 30 2018 contract, which stopped trading eight (8) days before its maturity, was valued against the NAFEX – the Nigerian Autonomous Foreign Exchange Fixing – the FMDQ reference Spot FX rate published on Wednesday, May 30, 2018. The associated clearing/settlement activities were effected accordingly. The CBN introduced a new contract, NGUS MAY 29 2019 for $1.00 billion at $/₦363.47 to replace the matured contract and refreshed its quotes on the existing 1- to 11-month contracts. The contracts quotes are published daily on FMDQ's website at www.fmdqotc.com and on the FMDQ Twitter page, @FMDQOTCExchange.

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Commercial Paper Issuances Maintain Steam as ₦47.50 Billion Worth are Quoted on the OTC Exchange

The month of May saw key activities in the CP quotations space on the OTC Exchange, where the Board Listings, Markets and Technology Committee of FMDQ approved the successful quotations of ten (10) CP issuances worth ₦47.50 billion, from three (3) issuers, on the platform. These included the UACN Property Development Company (UPDC) PLC ₦12.34 billion Series 22 - 28 CP Notes under its ₦24.00 billion CP Programme; the Nigerian Breweries PLC ₦16.43 billion Series 11 & 12 CP Notes under its ₦100.00 billion CP Programme; and the Sterling Bank PLC ₦18.69 billion Series 4 Tranche B CP Notes under its ₦100.00 billion CP Programme.

These corporate issuers - UPDC PLC, Nigerian Breweries PLC and Sterling Bank PLC - and others, have continued to raise funds from the debt markets to finance their short-term funding needs and avail on the numerous benefits of a debt security quotation on FMDQ. From the start of 2018 to date, a total of ₦521.15 billion worth of CPs have been quoted on FMDQ.

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FMDQ Turnover & Dealing Member (Banks) League Table Report

The FMDQ OTC Market Turnover Report shows the turnover on all products traded on the FMDQ secondary market – Foreign Exchange (FX), Treasury Bills (T.bills), Bonds (FGN Bonds, other Bonds (Agency, Sub-national, Corporate & Supranational) & Eurobonds)), Commercial Papers and Money Market (Repos/Buy-Backs and Unsecured Placements/Takings). These figures exclude primary market auctions in T.bills and Bonds.

The data, collated from the weekly trade data submissions by FMDQ Dealing Member (Banks) (DMBs), represents trades executed amongst the DMBs, DMBs & Clients, and DMBs & the CBN.

FMDQ OTC Market Turnover (January - April 2018)

Product Category	(₦'mm)	($'mm)
Foreign Exchange	13,144,190	39,655
Foreign Exchange Derivatives	6,991,360	21,135
Treasury Bills	22,614,528	68,360
FGN Bonds	3,498,681	10,560
Other Bonds*	74,195	226
Eurobonds	18,517	56
Repurchase Agreements/Buy-Backs	8,114,058	24,406
Unsecured Placements/Takings	414,020	1,242
Money Market Derivatives	-	-
Commercial Papers	-	-
Total	**54,869,550**	**165,640**

No. of Business Days	82	82
Average Daily Turnover	**669,141**	**2,020**

mm - million
**Other Bonds include Agency, Sub-national, Corporate & Supranational Bonds*
Note: Figures may be subject to change due to potential adjustments from Dealing Member (Banks) (DMBs)
Source: FMDQ Data Portal as @ May 3, 2018; Figures reported by DMBs on a week-ending basis.

FMDQ OTC Securities Exchange

The total turnover for January to April 2018 period amounted to ₦54.87 trillion. Trading activities in T.bills contributed the largest to overall turnover, accounting for 41.22% of the market. FX market transactions (Spot FX and FX Derivatives) accounted for 36.70%, whilst Repurchase Agreements (Repos)/Buy-Backs transactions accounted for 14.79%, with Bonds and Unsecured Placements & Takings representing 6.55% and 0.75% respectively, of overall market turnover.

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Top Ten (10) Dealing Member (Banks) in FMDQ Markets (January - April 2018)

The FMDQ League Table shows the rankings of its top ten (10) Dealing Member (Banks) by overall market turnover in the FMDQ Markets

RANK	DEALING MEMBER (BANKS)
1	STANBIC IBTC BANK PLC
2	ACCESS BANK PLC
3	UNITED BANK FOR AFRICA PLC
4	STANDARD CHARTERED BANK NIGERIA LIMITED
5	ECOBANK NIGERIA LIMITED
6	UNION BANK OF NIGERIA PLC
7	CITIBANK NIGERIA LIMITED
8	CORONATION MERCHANT BANK LIMITED
9	ZENTH BANK PLC
10	GUARANTY TRUST BANK PLC

The top ten (10) DMBs accounted for 70.77% (₦57.55 trillion) of the overall turnover in the market, with the top three (3) accounting for 58.64% (₦33.75 trillion) of this sub-section of the market. Stanbic IBTC Bank PLC, Access Bank PLC and United Bank for Africa PLC were the leaders in the value traded for the overall over-the-counter (OTC) market, ranking 1st, 2nd and 3rd respectively.

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Launch of the Nigerian Green Bond Market Development Programme

In its bid to revolutionise the Nigerian debt capital markets (DCM) into a world class, properly functioning and globally competitive DCM with a bouquet of investment securities, FMDQ, in partnership with the Financial Sector Deepening Africa and Climate Bonds Initiative (together referred to as the "**Parties**") are spearheading a 3-year Nigerian Green Bond Market Development Programme (the **"Programme"**) to create awareness and drive education required to integrate the principles of green financing into the Nigerian DCM. The Parties, supported by Access Bank PLC, the SEC and other key stakeholders, will be ushering in the commencement of the Programme with a 3-day event scheduled to hold from June 5 – 7, 2018, which will involve a series of targeted roundtable sessions aimed at demystifying the concept of green bonds as an alternative financing instrument for stakeholders (investors, issuers and intermediaries) and culminate in a market-wide plenary session on Thursday, June 7, 2018, when the Programme will be officially launched.

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1st FMDQ Bi-Annual Members' Meeting for 2018

As part of its commitment to develop the Nigerian financial markets and in recognition of the crucial roles its Members play in this development, FMDQ will be hosting its Members to the first FMDQ Members' Meeting for 2018 (the "Meeting"). The Members' meetings, which are held bi-annually, bring together the Dealing, Associate and Registration Members of FMDQ to deliberate on and collectively contribute to the market development activities which the OTC Exchange champions. The meetings also provide an opportunity for FMDQ to provide updates on various initiatives being undergone by the OTC Exchange.

The Meeting, scheduled to hold in June 2018, will highlight new initiatives as they impact the market, and afford the Members the opportunity to interact, review and contribute to the shaping of the market architecture, in line with their needs and the value-adding services provided by FMDQ.

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Introduction to Mortgage-Backed Securities

The April 2018 edition of FMDQ Newsletter explored the fundamentals of asset-backed securities (ABS), which are investible securities backed by a specified pool of underlying assets. The pool of assets is typically a group of illiquid assets which are unable to be sold individually. Examples of such assets include, but are not limited to, bank loans (business, automobile etc.), credit cards and leases. Loan originators (i.e. basically financial institutions, convert their pools of loan receivables into credit-enhanced financial securities which are sold to investors in the DCM, providing investors the opportunity to invest in a wide variety of income-generating assets and enabling these loan originators generate more cash for their businesses. This edition of FMDQ Learning focuses on the fundamentals of mortgaged-backed securities (MBSs), including its features, credit enhancements and benefits.

Overview

An MBS is a type of asset-backed security secured by a mortgage or collection of mortgages. These mortgages are sold by loan originators (majorly financial institutions) to investors in the secondary market to raise cash. MBSs are created when pools of these mortgages are collected and securitised by MBSs issuers (such as federal governments, municipal governments or private financial institutions) which are then sold to investors. MBSs are grouped into classes with respect to the types of property, interest rates, maturities and risk.

Using an example: Mr. Thomson wants to buy a house and he decides to approach ABC Bank for a mortgage (which implies taking a loan). Mr. Thomson gets a mortgage from ABC Bank, and the bank transfers the money to his account after he has agreed to pay back the loan amount according to a set schedule which calculates interest and principal payments over the number of years agreed by both parties. ABC Bank may decide to sell the mortgage, enabling the bank to generate cash to make more loans, or hold the mortgage in its portfolio (i.e. simply collect the interest and principal payments over the agreed years). ABC Bank decides to sell the mortgage to Company XYZ (which could be a private financial institutions). The Company XYZ groups the mortgage with similar purchased mortgages (referred to as pooling) into classes with common characteristics (i.e. type of property, similar interest rate, maturity, etc.)

Company XYZ then sells the securities representing an interest in the pool of mortgages (including Mr. Thomson's mortgage) to investors in the secondary market. Proceeds from the sale of these securities by Company XYZ would then be used to purchase more mortgages and create more MBSs. When Mr. Thomson makes his monthly payments to ABC Bank, the bank keeps a fee and sends the rest of the payments to Company XYZ. Company XYZ in turn takes a fee and transfers what is left of Mr. Thomson's scheduled payment (and those of the other mortgage holders in the pool) to investors holding the MBS.

Types of MBSs

The basic types of MBSs are classified into the following:

- **Mortgage Participation Certificates (PCs):** PCs, also referred to as pass-through securities, represent direct claims on a pool of mortgage loans, where the dealer of the securities collects mortgage payments and passes them through to investors. PCs are the commonest kinds of MBSs and typically have stated maturities of five (5), fifteen (15), and thirty (30) years

- **Collateralised Mortgage Obligations (CMOs):** CMOs consist of multiple pools of mortgage pass-throughs or mortgage loans typically divided into classes that have different maturities and different priorities for the receipt of principals and in some cases, interests. As special purpose entities, CMOs receive the mortgage repayments and own the mortgages they receive cash flows from. The mortgages serve as collateral and are organised into classes based on their risk profiles. Incomes received from the mortgages are passed to investors based on a predetermined set of rules and investors receive money based on the specific slices of mortgages invested in

Benefits of Investing in MBSs

MBSs offer benefits to both issuers and investors. MBSs enable issuers have access to cash to issue more loans and tend to offer high degree of liquidity. The benefits of MBSs to investors, on the other hand, include, but are not limited to:

- **Steady income:** Regardless of whether the underlying mortgage payments have been collected, prompt monthly payments are received by the investors on the securities. MBSs work more like bonds that offer periodic income, with the payments frequency enhancing the compounding effects of reinvestment
- **Attractive rate of return:** MBSs offer attractive returns relative to other securitised assets of similar credit quality and similar stated maturities
- **Investment diversification:** MBSs offer investors the ability to diversify their fixed income portfolios away from more basic money market, government and corporate debt securities

Conclusion

Globally, MBSs have changed the banking and housing industry, making it easier to buy real estate. There is a developing market for MBSs in Nigeria owing to the rapidly changing financial environment thereby enhancing the range of investments available to meet the varying needs of investors. Whilst MBSs offer alternative investments with relatively attractive rates of return compared to other conventional fixed income securities and allow the tailoring of investment portfolios to meet specific financial goals, it also creates unique risks such as interest rate, pre-payment and default risks which can lead to unintended consequences. As a result, investors should include additional precautions to mitigate or reduce these risks when investing in MBS.

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